

China Longyuan (916 HK)

Backdoor listing on track; 4Q21 performance to sustain good momentum

CLY's 3Q results was a bit dragged by slow wind season and sluggish coal-fired power segment due to high standing coal price. 3Q21 earnings declined 13.3% YoY, while 9M21 earnings maintained decent growth at 31.4% YoY. Finance expense was a highlight which read 4.1% decline YoY, and overall finance costs declined 42bps to 3.98%. In 9M21, CLY read wind power generation growth of 18.9% YoY to 37,031GWh, on track to our full year projection (+18% YoY). Looking ahead in 4Q21E, as wind speed to resume in winter, we expect power generation growth to accelerate again. We made slight adjustment on FY21-23E earnings, and lift TP by 10.5% from HK\$19.0 to HK\$21. Maintain BUY.

- Backdoor listing on track.** Mgmt. expressed the A-share listing is still on track to a target timeline by end-2021. Recent application suspension announcement was made upon CSRC request, while the defective project land disposal is still on going. The Company will resume application when those land field disposal processes are done.
- Capacity growth is lagging.** CLY added only 111MW wind farm and 100MW solar farm in 9M21, way below full year target of wind/solar of 1.8GW/1.2GW respectively. We think CLY may likely miss the target due to government's late distribution of grid-parity project quota in 2021. Given recent high costs of solar modules, we expect a significant portion of solar project will be carried forward to 2022.
- Wind tariff to have upside potential.** In 9M21, wind tariff increased by RMB7.8/MWh to RMB490.8/MWh. The Company recorded ~29.3% market trading for wind segment with average trading tariff of RMB383.7/MWh, up RMB29.4/MWh. In view of recent coal-fired power tariff hike towards 20% upside to the benchmark, we expect CLY's electricity market trading to have significant upward potential, which could improve 4Q21E average wind tariff performance.
- Strong market sentiment to continue.** After recent share price gain, CLY's valuation reached 17.3x FY22E PER. We still prefer CLY in the wind sector for its earnings quality, well prepared capital planning (backdoor listing), and sufficient projects and asset injection pipeline to sustain ~25% capacity CAGR in the 14th FYP period. We revised up FY22/23E earnings slightly by 2.6%/2.2%. Our TP is lifted by 10.5% to HK\$21.0. Maintain BUY.

Earnings Summary

| (YE 31 Dec) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---------------------|--------|--------|--------|--------|--------|
| Revenue (RMB mn) | 27,541 | 28,667 | 34,230 | 35,907 | 40,370 |
| Net income (RMB mn) | 4,325 | 4,726 | 6,155 | 6,951 | 8,017 |
| EPS (RMB) | 0.54 | 0.59 | 0.77 | 0.86 | 1.00 |
| EPS CHG (%) | 10.22 | 9.3 | 30.2 | 12.9 | 15.3 |
| Consensus EPS(RMB) | N/A | N/A | 0.77 | 0.82 | 1.0 |
| P/E (x) | 27.9 | 25.5 | 19.6 | 17.3 | 15.0 |
| P/B (x) | 2.52 | 2.34 | 2.12 | 1.93 | 1.74 |
| Yield (%) | 0.7 | 0.8 | 1.0 | 1.2 | 1.3 |
| ROE (%) | 9.0 | 9.2 | 10.8 | 11.1 | 11.6 |
| Net gearing (%) | 156 | 165 | 178 | 189 | 199 |

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

| | |
|---------------|------------|
| Target Price | HK\$21.00 |
| (Previous TP) | HK\$19.00) |
| Up/Downside | +16.2% |
| Current Price | HK\$18.08 |

China Wind Sector

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Stock Data

| | |
|--------------------------|------------|
| Mkt Cap (HK\$ mn) | 145,298 |
| Avg 3 mths t/o (HK\$ mn) | 461.76 |
| 52w High/Low (HK\$) | 20.25/5.11 |
| Total Issued Shares (mn) | 8,036 |

Source: Bloomberg

Shareholding Structure – H share

| | |
|-----------------------|-------|
| Wellington Mgmt Group | 13.0% |
| BlackRock Inc. | 7.0% |
| Free float | 80.0% |

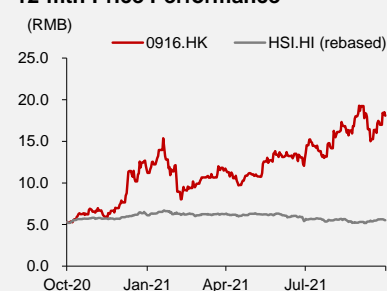
Source: HKEx

Share Performance

| | Absolute | Relative |
|--------|----------|----------|
| 1-mth | -6.2% | -10.1% |
| 3-mth | 39.1% | 38.6% |
| 6-mth | 54.2% | 75.4% |
| 12-mth | 243.7% | 232.3% |

Source: Bloomberg

12-mth Price Performance



Source: Wind

Auditor: Ernst & Young

Related Reports

- "China Longyuan (916 HK) – 9M20 results on track; seeing silver lining for accelerating subsidy collection" – 28 Oct 2020
- "China Longyuan (916 HK) –1H20 results in line; await subsidies funding resolve plan" – 13 Aug 2020

Figure 1: CLY's quarter results summary

| (RMB, mn) | 1Q20 | 2Q20 | 3Q20 | 4Q20 | FY20A | 1Q21 | 2Q21 | 3Q21 | 4Q21E | FY21E | 9M20 | 9M21 | YoY |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|--------------|
| Revenue | 7,184 | 7,034 | 5,768 | 8,681 | 28,667 | 9,203 | 8,674 | 7,710 | 6,860 | 32,446 | 19,986 | 25,587 | 28.0% |
| Wind | 5,530 | 5,072 | 3,785 | 6,017 | 20,403 | 6,671 | 6,067 | 4,219 | 7,054 | 24,011 | 14,387 | 16,958 | 17.9% |
| Coal power | 1,582 | 1,748 | 1,850 | 2,413 | 7,593 | 2,388 | 2,439 | 3,356 | -376 | 7,807 | 5,180 | 8,182 | 58.0% |
| Others | 72 | 102 | 86 | 98 | 358 | 106 | 135 | 130 | 257 | 628 | 259 | 371 | 43.2% |
| Concession | 0 | 113 | 77 | 123 | 313 | 38 | 32 | 4 | -75 | 0 | 189 | 75 | -60.3% |
| Other net income | 203 | 220 | 165 | 698 | 1,287 | 283 | 272 | 213 | 255 | 1,022 | 588 | 767 | 30.4% |
| Operating expenses | -3,989 | -4,314 | -4,304 | -7,291 | -19,898 | -4,976 | -5,346 | -6,438 | -4,312 | -21,072 | -12,607 | -16,760 | 32.9% |
| Operating profit | 3,081 | 3,257 | 1,629 | 2,089 | 10,056 | 4,510 | 3,600 | 1,485 | 2,803 | 12,397 | 7,967 | 9,594 | 20.4% |
| Operating profit margin | 43.4% | 46.3% | 28.2% | 24.1% | 35.1% | 43.4% | 41.5% | 19.3% | 40.9% | 38.2% | 39.9% | 37.5% | -5.9% |
| Net finance expenses | -774 | -958 | -703 | -648 | -3,083 | -993 | -666 | -677 | -1,272 | -3,608 | -2,436 | -2,336 | -4.1% |
| Share profit | 15 | -26 | 9 | -49 | -51 | 16 | -92 | -106 | 139 | -43 | -2 | -182 | 10428.8% |
| Profit before tax | 2,638 | 1,956 | 935 | 1,392 | 6,922 | 3,533 | 2,842 | 702 | 1,670 | 8,746 | 5,529 | 7,077 | 28.0% |
| Income tax | -427 | -391 | -119 | -299 | -1,236 | -621 | -505 | -67 | -434 | -1,626 | -937 | -1,192 | 27.2% |
| Effective tax rate | 16.2% | 20.0% | 12.7% | 21.5% | 17.9% | 17.6% | 17.8% | 9.5% | 26.0% | 18.6% | 16.9% | -16.8% | -199.4% |
| Profit for the period | 2,211 | 1,565 | 816 | 1,093 | 5,685 | 2,912 | 2,337 | 636 | 1,235 | 7,120 | 4,592 | 5,885 | 28.1% |
| Less: Minority interest | 221 | 225 | 248 | -33 | 661 | 359 | 350 | 118 | -167 | 661 | 693 | 828 | 19.4% |
| Perpetual interest distribution* | 75 | 75 | 32 | 117 | 299 | 66 | 53 | 53 | 93 | 266 | 182 | 172 | -5.1% |
| Net profit* | 1,916 | 1,266 | 536 | 1,009 | 4,726 | 2,486 | 1,934 | 465 | 1,309 | 6,194 | 3,718 | 4,885 | 31.4% |

Source: Company data, CMBI

* Perpetual interest is based on CMBIS estimates

Figure 2: CLY's quarterly power generation performance

| | 1Q20 | 2Q20 | 3Q20 | 4Q20 | FY20 | 1Q21 | 2Q21 | 3Q21 | 9M21 | 4Q21E | FY21E |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|-------|--------|--------|--------|
| Total power generation (GWh) | 13,693 | 13,233 | 11,008 | 15,133 | 53,066 | 17,378 | 15,729 | 4,827 | 37,934 | 24,996 | 62,930 |
| Run Rate %* | 25.8% | 24.9% | 20.7% | 28.5% | 100.0% | 32.7% | 29.6% | 9.1% | 71.5% | 47.1% | 100.0% |
| Wind power generation (GWh) | 11,662 | 11,111 | 8,376 | 12,535 | 43,683 | 14,404 | 13,004 | 9,624 | 37,031 | 14,495 | 51,526 |
| Run Rate %* | 26.7% | 25.4% | 19.2% | 28.7% | 100.0% | 28.0% | 25.2% | 18.7% | 71.9% | 28.1% | 100.0% |
| Coal-fired power (GWh) | 1,950 | 2,015 | 2,547 | 2,521 | 9,034 | 2,773 | 2,486 | 2,998 | 8,257 | 2,187 | 10,445 |
| Run Rate %* | 21.6% | 22.3% | 28.2% | 27.9% | 100.0% | 26.5% | 23.8% | 28.7% | 79.1% | 20.9% | 100.0% |
| Other power (GWh) | 81 | 107 | 85 | 77 | 349 | 201 | 239 | 280 | 720 | 239 | 959 |
| Run Rate %* | 23.1% | 30.7% | 24.3% | 22.0% | 100.0% | 21.0% | 24.9% | 29.2% | 75.1% | 24.9% | 100.0% |

Source: Company data, CMBI

Figure 3: Earnings revision

| | Old | | | New | | | Change(%) | | |
|-----------------------------------|--------|--------|--------|--------|--------|--------|-----------------------|-------|-------|
| | 2021E | 2022E | 2023E | 2021E | 2022E | 2023E | 2021E | 2022E | 2023E |
| Wind power generation(GWh) | 51,526 | 56,083 | 62,433 | 51,526 | 56,083 | 62,433 | 0.0% | 0.0% | 0.0% |
| Coal-fired power generation (GWh) | 10,445 | 10,500 | 10,500 | 10,445 | 10,500 | 10,500 | 0.0% | 0.0% | 0.0% |
| Revenue (RMB mn) | 32,446 | 35,312 | 39,577 | 34,230 | 35,907 | 40,370 | 5.5% | 1.7% | 2.0% |
| Net Income (RMB mn) | 6,194 | 6,773 | 7,848 | 6,155 | 6,951 | 8,017 | -0.6% | 2.6% | 2.2% |
| EPS (RMB) | 0.771 | 0.843 | 0.977 | 0.766 | 0.865 | 0.998 | -0.6% | 2.6% | 2.2% |
| | | | | | | | Our est. vs consensus | | |
| Consensus earnings (RMB mn) | | | | 6,356 | 7,296 | 7,410 | -3.2% | -4.7% | 8.2% |
| Consensus EPS (RMB) | | | | 0.771 | 0.879 | 1.019 | -0.7% | -1.6% | -2.1% |

Source: Company data, CMBI

Financial Summary

Income statement

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Revenue | 27,541 | 28,667 | 34,230 | 35,907 | 40,370 |
| Wind | 18,981 | 20,403 | 24,011 | 25,850 | 28,502 |
| Coal-fired | 7,784 | 7,593 | 9,591 | 8,566 | 8,761 |
| Others | 657 | 358 | 628 | 1,491 | 3,107 |
| Concession revenue | 118 | 313 | - | - | - |
| Cost of sales | (14,488) | (14,774) | (18,278) | (17,838) | (19,759) |
| Gross profit | 13,053 | 13,893 | 15,953 | 18,069 | 20,611 |
| Other income, net | 843 | 1,287 | 1,078 | 1,113 | 1,231 |
| Admin expense | (564) | (607) | (725) | (760) | (855) |
| Personnel costs | (2,352) | (2,645) | (2,843) | (3,095) | (3,372) |
| Other expenses | (1,034) | (1,871) | (1,369) | (1,436) | (1,615) |
| EBIT | 9,946 | 10,056 | 12,094 | 13,890 | 16,001 |
| Finance costs, net | (3,486) | (3,083) | (3,353) | (4,288) | (5,053) |
| Associates & JVs | (10) | (51) | (43) | 21 | 21 |
| Exceptional | - | - | - | - | - |
| Pre-tax profit | 6,450 | 6,922 | 8,698 | 9,623 | 10,969 |
| Income tax | (1,131) | (1,236) | (1,617) | (1,746) | (2,026) |
| Less: | | | | | |
| Minority interests | 753 | 661 | 661 | 661 | 661 |
| Perp. MTN | 242 | 299 | 266 | 266 | 266 |
| Net profit | 4,325 | 4,726 | 6,155 | 6,951 | 8,017 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income | 4,325 | 4,726 | 6,155 | 6,951 | 8,017 |
| DD&A | 7,786 | 7,968 | 8,819 | 10,130 | 11,730 |
| WC change | (1,865) | (5,665) | (11,60) | (2,269) | (3,060) |
| Others | 2,270 | 83 | 440 | 8 | 14 |
| Operating CF | 12,515 | 7,112 | 3,813 | 14,820 | 16,701 |
| Capex | (9,799) | (18,03) | (19,16) | (30,63) | (34,72) |
| Associates inv. | 221 | 272 | (178) | (21) | (21) |
| Other | (1,196) | 779 | (924) | (81) | (79) |
| Investment CF | (10,77) | (16,97) | (20,26) | (30,74) | (34,82) |
| Equity raised | - | 904 | - | - | - |
| Change of Debts | 3,286 | 12,392 | 13,010 | 19,703 | 18,914 |
| Dividend paid | (785) | (865) | (945) | (1,231) | (1,390) |
| Others | (4,202) | 1,029 | 150 | 150 | 150 |
| Financing CF | (1,700) | 13,459 | 12,214 | 18,622 | 17,674 |
| Net change in cash | 41 | 3,593 | (4,235) | 2,701 | (449) |
| Cash at beginning | 2,861 | 2,908 | 6,501 | 2,267 | 4,968 |
| Exchange difference | (7) | - | - | - | - |
| Cash at the end | 2,908 | 5,226 | 2,267 | 4,968 | 4,519 |
| Pledged cash | 523 | 361 | 373 | 444 | 512 |
| Time deposit | - | - | - | - | - |
| Cash at balance sheet | 3,432 | 5,588 | 2,639 | 5,412 | 5,031 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Non-current assets | 133,77 | 144,10 | 153,96 | 174,39 | 197,30 |
| Fixed asset | 114,60 | 124,91 | 135,43 | 156,25 | 179,55 |
| Prepaid lease payments | - | - | - | - | - |
| Interest in JVs | 4,328 | 4,056 | 4,234 | 4,255 | 4,277 |
| Others | 11,683 | 12,267 | 11,113 | 10,727 | 10,335 |
| Current assets | 23,029 | 31,184 | 35,633 | 39,668 | 42,852 |
| Cash | 3,432 | 5,588 | 2,639 | 5,412 | 5,031 |
| Account receivable | 16,365 | 21,603 | 29,106 | 30,170 | 33,513 |
| Prepayments | 1,963 | 2,831 | 2,567 | 2,648 | 2,740 |
| Others | 1,269 | 1,162 | 1,321 | 1,437 | 1,568 |
| Current liabilities | 43,538 | 52,907 | 52,226 | 59,118 | 67,206 |
| Trade and other payable | 3,411 | 3,615 | 2,049 | 2,049 | 2,049 |
| Other payables | 10,840 | 11,064 | 8,480 | 7,474 | 7,978 |
| Borrowings | 28,965 | 37,875 | 41,403 | 49,312 | 56,902 |
| Others | 230 | 328 | 225 | 222 | 223 |
| Non-current liabilities | 52,610 | 55,930 | 65,563 | 77,266 | 88,497 |
| Borrowings | 48,881 | 52,598 | 62,105 | 73,968 | 85,353 |
| Obligation under financial | - | - | - | - | - |
| Others non-current assets | 2,984 | 2,756 | 2,952 | 2,852 | 2,752 |
| Minority Interest | 7,732 | 8,761 | 8,911 | 9,061 | 9,211 |
| Perpetual MTN | 4,991 | 6,045 | 6,045 | 6,045 | 6,045 |
| Shareholders' equity | 47,932 | 51,642 | 56,851 | 62,572 | 69,199 |
| Total Equity | 60,655 | 66,449 | 71,808 | 77,678 | 84,455 |

Key ratios

| YE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales mix (%) | | | | | |
| Wind | 68.9 | 71.2 | 70.1 | 72.0 | 70.6 |
| Coal-fired | 28.3 | 26.5 | 28.0 | 23.9 | 21.7 |
| Others | 2.4 | 1.2 | 1.8 | 4.2 | 7.7 |
| Concession revenue | 0.4 | 1.1 | - | - | - |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Profit & loss ratios (%) | | | | | |
| Operating margin | 36.1 | 35.1 | 35.3 | 38.7 | 39.6 |
| Pre-tax margin | 23.4 | 24.1 | 25.4 | 26.8 | 27.2 |
| Net margin | 15.7 | 16.5 | 18.0 | 19.4 | 19.9 |
| Effective tax rate | 17.5 | 17.9 | 18.6 | 18.1 | 18.5 |
| Balance sheet ratios | | | | | |
| Current ratio (x) | 0.53 | 0.59 | 0.68 | 0.67 | 0.64 |
| Quick ratio (x) | 0.51 | 0.57 | 0.66 | 0.65 | 0.62 |
| Cash ratio (x) | 0.07 | 0.10 | 0.04 | 0.08 | 0.07 |
| Inventory turnover days | 11.1 | 10.3 | 9.7 | 10.9 | 10.8 |
| Debtors turnover days | 178.3 | 241.7 | 270.4 | 301.3 | 287.9 |
| Creditor turnover days | 68.9 | 86.8 | 56.6 | 41.9 | 37.8 |
| Total debt / equity ratio (%) | 162.4 | 175.2 | 182.1 | 197.0 | 205.6 |
| Net debt / equity ratio (%) | 156.3 | 165.1 | 178.1 | 189.1 | 199.0 |
| Returns (%) | | | | | |
| ROE | 9.0 | 9.2 | 10.8 | 11.1 | 11.6 |
| ROA | 2.8 | 2.7 | 3.2 | 3.2 | 3.3 |
| Per share | | | | | |
| EPS (RMB) | 0.54 | 0.59 | 0.77 | 0.86 | 1.00 |
| DPS (RMB) | 0.11 | 0.12 | 0.15 | 0.17 | 0.20 |
| BVPS (RMB) | 5.96 | 6.43 | 7.07 | 7.79 | 8.61 |

Source: Company data, CMBIS estimates

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